

City of Scottville
Mason County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

City of Scottville
LIST OF ELECTED AND APPOINTED OFFICIALS
June 30, 2008

Mayor..... Leon Begue

Mayor Pro Tem.....Richard Maki

City Commission Bonnie Pfefferle
Ron Merrill
Joseph Baxter
Jeff Gilchrist
Andrew Peterson

APPOINTED OFFICIALS

City Manager/Clerk Amy Hansen

Deputy City Clerk/Utility Clerk.....Deborah Howe

Finance Officer/TreasurerStacey Swiatlowski

Police Chief.....Larry Nichols

City of Scottville

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This discussion and analysis is intended to serve as an introduction to the City of Scottville's basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2008. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year, the City of Scottville had total assets of \$10,895,137 and total liabilities of \$3,494,312 leaving total net assets of \$7,400,825. Of this amount, \$13,183 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.

Governmental activities had net income of \$114,570, and business-type activities had net loss of \$53,699.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, and cultural and recreational activities. The business-type activities of the City include the water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water and Sewer funds, both of which are major funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the Statement of Net Assets provides the perspective of the City as a whole. The first table presented below provides a summary of the City's net assets. As of June 30, 2008, the City's net assets from governmental activities totaled \$2,272,676 and \$5,128,149 from business-type activities, creating a government-wide net asset total of \$7,400,825. For comparison purposes as of June 30, 2007, the City's net assets from governmental activities totaled \$2,158,106 and \$5,181,848 from business-type activities, creating a government wide net asset total of \$7,339,954.

In examining composition of net assets, the reader should note that the amount of governmental activities net assets that are invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.). These assets are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$8,255. This represents the amount of discretionary cash or investments that can be used for general government operations.

For governmental activities, capital assets and the corresponding investment in capital assets net of related debt net assets category increased due work done on improvement projects for the boat launch and campground. Current assets and unrestricted net assets decreased due to the costs of these capital assets. Noncurrent liabilities increased because the City also borrowed \$150,000 to pay for theses capital assets. Current liabilities decreased because some significant payables from the prior year related to these capital projects were paid off.

The business-type activities show a total of \$5,128,149 in net assets and \$4,928 in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets (deficit) are \$(104,597) and \$105,074, respectively. Capital assets declined because depreciation exceeded current year additions.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets and other assets	\$ 879,894	\$ 1,299,559	\$ 393,388	\$ 401,642	\$ 1,273,282	\$ 1,701,201
Capital assets	2,130,815	1,588,808	7,491,040	7,621,153	9,621,855	9,209,961
Total assets	3,010,709	2,888,367	7,884,428	8,022,795	10,895,137	10,911,162
Current liabilities	154,467	282,273	149,767	160,797	304,234	443,070
Noncurrent liabilities	583,566	447,988	2,606,512	2,680,150	3,190,078	3,128,138
Total liabilities	738,033	730,261	2,756,279	2,840,947	3,494,312	3,571,208
Net assets						
Invested in capital assets, net of related debt	1,947,649	1,545,320	4,810,828	4,867,203	6,758,477	6,412,523
Restricted	316,772	354,287	312,393	269,228	629,165	623,515
Unrestricted	8,255	258,499	4,928	45,417	13,183	303,916
Total net assets	\$ 2,272,676	\$ 2,158,106	\$ 5,128,149	\$ 5,181,848	\$ 7,400,825	\$ 7,339,954

Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2008. You will also see a revenue and expense comparison with fiscal year 2007.

Governmental Activities

During the fiscal year ending June 30, 2008, the City's governmental activities experienced an overall increase in the net assets of \$114,570 or approximately 5%. The following table shows these results.

Charges for services declined because portions of the City campground were closed during the summer for capital improvements. Capital grants and contributions decreased due to grant funding for the West Johnson Road project in the prior year. General government expenses decreased due to studies and planning done on a potential new City hall in the prior year that the City decided not to pursue at this time. Public works expenses increased as West Johnson Road improvements are now in service and being depreciated and a heavy winter increased plowing and related costs. Community and economic development expenses increased as the City's Main Street Program is now in operation. Culture and recreation expenses increased due to additional recreation department costs.

Business-type Activities

During the fiscal year ending June 30, 2008, the City experienced an overall decrease in the net assets of \$53,699 or approximately 1%. The following table shows these results.

Capital contributions decreased because in the prior year there were more water and sewer tap fees from new hookups and system expansion. Sewer Fund expenses decreased due to lower sewer treatment costs to the City of Ludington. Water Fund expenses decreased as the City's meter replacement program is completed.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 150,208	\$ 191,220	\$ 460,621	\$ 453,372	\$ 610,829	\$ 644,592
Operating grants	150,778	130,692	-	-	150,778	130,692
Capital grants and contributions	263,116	418,240	7,901	137,128	271,017	555,368
General revenues						
Property taxes	451,659	442,224	-	-	451,659	442,224
Grants and contributions not restricted	158,039	159,113	-	-	158,039	159,113
Unrestricted investment earnings	24,150	51,562	16,705	20,313	40,855	71,875
Miscellaneous	24,806	13,286	-	-	24,806	13,286
Gain on sale of capital assets	1,739	2,077	-	-	1,739	2,077
Total revenues	1,224,495	1,408,414	485,227	610,813	1,709,722	2,019,227
Expenses:						
General government	291,296	319,296	-	-	291,296	319,296
Public safety	186,584	183,406	-	-	186,584	183,406
Public works	432,159	363,912	-	-	432,159	363,912
Community and economic development	45,620	25,924	-	-	45,620	25,924
Culture and recreation	149,456	124,770	-	-	149,456	124,770
Interest on long term debt	4,810	2,985	-	-	4,810	2,985
Sewer Fund	-	-	379,553	409,008	379,553	409,008
Water Fund	-	-	159,373	179,087	159,373	179,087
Total expenses	1,109,925	1,020,293	538,926	588,095	1,648,851	1,608,388
Change in net assets	114,570	388,121	(53,699)	22,718	60,871	410,839
Net assets - Beginning	2,158,106	1,769,985	5,181,848	5,159,130	7,339,954	6,929,115
Net assets - Ending	\$ 2,272,676	\$ 2,158,106	\$ 5,128,149	\$ 5,181,848	\$ 7,400,825	\$ 7,339,954

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2008 fiscal year, the governmental funds reported a combined undesignated fund balance of \$570,138 of which \$360,797 is in the General Fund. There was an unreserved fund deficits in the Local Streets Fund of \$14,964 included in this amount. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to 1) pay capital purchases and liquidate prepaid items \$29,098; 2) pay maintenance of rights of way \$23,039; 3) reserves for perpetual care \$91,479.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$376,806, a decrease of \$239,608 from fiscal year 2007. The primary reason for the decrease was capital improvements undertaken at the boat launch and campground. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 27% of the General Fund expenditures.

The Major Streets Fund ended the year with a fund balance of \$149,759, an increase of \$28,663 from fiscal year 2007. The combined non-major governmental funds realized a decrease in fund balance of \$46,002 for the fiscal year.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer Fund decreased by \$73,713, while the Water Fund increased by \$19,681. The result was an overall decrease of \$54,032.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- Intergovernmental revenues – State grants were originally budgeted for \$361,694 and were amended up to \$526,800 because the majority of the work for the campground reconstruction project and the boat launch project was completed in this fiscal year, where it had originally been budgeted in the previous fiscal year.
- Charges for services revenues were originally budgeted for \$111,325 and were amended up to \$122,625 because of the additional camping revenue we received that was not originally expected because the campground was under construction for the majority of the year.
- City Commission expenditures were originally budgeted for \$37,798 and were amended up to \$57,696 because of additional costs with the audit, increasing commissioner salaries and increased advertising costs.
- Parking lot and malls expenditures were originally budgeted for \$6,032 and were amended up to \$16,363 because of the extra work associated with the plowing of the parking lots this past winter.
- Department of public works expenditures were originally budgeted for \$71,295 and were amended up to \$89,063 because of additional work in the general maintenance area rather than in other areas, such as streets.
- Recreation department expenditures were originally budgeted for \$41,163 and were amended up to \$66,240 because of the hiring of a full time recreation director and the increased costs in equipment rental for work completed at the fields by the Department of Public Works.
- Capital outlay expenditures were originally budgeted for \$289,342 and were amended up to \$610,462 because the bulk of the work on the campground project and boat launch project fell in the current fiscal year rather than the previous one as originally budgeted.
- Proceeds from long-term debt was originally not budgeted and was amended up to \$150,000 because of the loan that was taken out to pay for a portion of the campground project that was not reimbursed by the State of Michigan in a timely manner.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures in the General Fund.

- Property tax revenues were \$379,948, \$9,848 more than budgeted because of the increased taxable value of the City.
- Intergovernmental revenues - State were \$400,495, \$126,305 less than budgeted because of the allocation of state grant revenue received and the timing of which fiscal year it fell in.

Capital Asset Administration

The City's most significant capital asset expenditure this year were the completion of improvements to the boat launch for approximately \$230,000 and the completion of campground improvements for approximately \$515,000. Various other equipment and improvements were also purchased.

Debt Administration

As of June 30, 2008, the City had outstanding long-term liabilities of \$3,338,978 consisting of various revenue bonds, installment purchases, landfill remediation costs and compensated absences.

On the governmental side of the City, the largest source of debt is the landfill remediation costs. The liability is estimated each year based on the average actual costs over the three most recent years, then extrapolated to the number of years remaining. The change in estimate is shown as an increase in the debt in the current year. The balance of the landfill remediation liability at June 30, 2008 is \$433,800 or 13% of total debt.

During the year, the City borrowed \$150,000 through an installment purchase agreement to assist in meeting grant matches for campground improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Scottville's 2008/2009 budget calls for the same operating millage rate as this past year, 16.5 mills. The City was able to keep the same operating millage even though there was an increase in operating expenses as the city also saw an increase in the taxable value. The increase in the taxable value is attributed to the selling and "un-capping" of home values as well as new construction.

The City also increased the water and sewer rates starting on July 1, 2008. The increase should allow the City to start setting money aside for capital projects in the water fund and allow the City to cover the costs associated with the payback of the Rural Development loan for the sewer project that was completed a few years back. The City also changed the ordinance so that amending the water and sewer rates can now be done by Resolution of the City Commission rather than by an Ordinance Amendment, this will allow the City to look at the rates on an as needed basis.

The only capital expenses in the 2008/2009 budget are for the purchase of a new leaf vacuum and the possibility of purchasing a new dump truck if the 1986 model is found to not be road worthy.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-757-4729, Scottville City Hall, located at 105 North Main Street, Scottville, MI 49454. Scottville City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 6, 2008

City Commission
City of Scottville
Scottville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottville as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Scottville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottville as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information on pages i – viii and 28 - 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scottville's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Scottville
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 617,221	\$ 84,565	\$ 701,786
Receivables	32,857	50,602	83,459
Internal balances	70,016	(70,016)	-
Due from other governmental units	136,758	-	136,758
Inventories	-	11,306	11,306
Prepaid items	23,042	2,638	25,680
Total current assets	879,894	79,095	958,989
NONCURRENT ASSETS			
Restricted assets	-	314,293	314,293
Capital assets, net			
Nondepreciable	295,644	6,457	302,101
Depreciable	1,835,171	7,484,583	9,319,754
Total noncurrent assets	2,130,815	7,805,333	9,936,148
Total assets	3,010,709	7,884,428	10,895,137

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	42,253	29,550	71,803
Customer deposits	-	6,965	6,965
Due to other governmental units	26,214	39,552	65,766
Deferred revenue	10,800	-	10,800
Bonds and other obligations, due within one year	75,200	73,700	148,900
Total current liabilities	154,467	149,767	304,234
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	583,566	2,606,512	3,190,078
Total liabilities	738,033	2,756,279	3,494,312
NET ASSETS			
Invested in capital assets, net of related debt	1,947,649	4,810,828	6,758,477
Restricted for:			
Streets and highways	158,713	-	158,713
Debt service	-	91,371	91,371
Capital projects	12,210	221,022	233,232
Perpetual care - nonexpendable	91,479	-	91,479
Downtown development	54,370	-	54,370
Unrestricted	8,255	4,928	13,183
Total net assets	\$ 2,272,676	\$ 5,128,149	\$ 7,400,825

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 291,296	\$ 24,864	\$ -	\$ -	\$ (266,432)	\$ -	\$ (266,432)
Public safety	186,584	2,719	336	11,000	(172,529)	-	(172,529)
Public works	432,159	20,245	134,329	9,996	(267,589)	-	(267,589)
Community and economic development	45,620	-	16,113	-	(29,507)	-	(29,507)
Culture and recreation	149,456	102,380	-	242,120	195,044	-	195,044
Interest on long-term debt	4,810	-	-	-	(4,810)	-	(4,810)
Total governmental activities	1,109,925	150,208	150,778	263,116	(545,823)	-	(545,823)
Business-type activities							
Sewer	379,553	291,885	-	3,589	-	(84,079)	(84,079)
Water	159,373	168,736	-	4,312	-	13,675	13,675
Total business-type activities	538,926	460,621	-	7,901	-	(70,404)	(70,404)
Total government	<u>\$ 1,648,851</u>	<u>\$ 610,829</u>	<u>\$ 150,778</u>	<u>\$ 271,017</u>	(545,823)	(70,404)	(616,227)
General revenues							
Property taxes					451,659	-	451,659
Grants and contributions not restricted to specific programs					158,039	-	158,039
Unrestricted investment earnings					24,150	16,705	40,855
Miscellaneous					24,806	-	24,806
Gain on sale of capital assets					1,739	-	1,739
Total general revenues					660,393	16,705	677,098
Change in net assets					114,570	(53,699)	60,871
Net assets at July 1, 2007					2,158,106	5,181,848	7,339,954
Net assets at June 30, 2008					<u>\$ 2,272,676</u>	<u>\$ 5,128,149</u>	<u>\$ 7,400,825</u>

The accompanying notes are an integral part of this statement.

City of Scottville
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	Major Streets Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 197,705	\$ 136,731	\$ 192,927	\$ 527,363
Accounts receivable	32,857	-	-	32,857
Due from other governmental units	120,022	12,714	4,022	136,758
Prepaid items	16,009	659	879	17,547
Advances to other funds	74,467	-	-	74,467
Total assets	<u>\$ 441,060</u>	<u>\$ 150,104</u>	<u>\$ 197,828</u>	<u>\$ 788,992</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 24,942	\$ 16	\$ 4,557	\$ 29,515
Accrued liabilities	7,641	329	739	8,709
Due to other governmental units	20,871	-	5,343	26,214
Deferred revenue	10,800	-	-	10,800
Total liabilities	64,254	345	10,639	75,238
Fund balances				
Reserved for:				
Prepaid items	16,009	-	879	16,888
Capital projects	-	-	12,210	12,210
Rights of way maintenance	-	-	23,039	23,039
Perpetual care	-	-	91,479	91,479
Unreserved				
Undesignated, reported in				
General Fund	360,797	-	-	360,797
Special revenue funds	-	149,759	59,582	209,341
Total fund balances	<u>376,806</u>	<u>149,759</u>	<u>187,189</u>	<u>713,754</u>
Total liabilities and fund balances	<u>\$ 441,060</u>	<u>\$ 150,104</u>	<u>\$ 197,828</u>	<u>\$ 788,992</u>

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
June 30, 2008

Total fund balance—governmental funds	\$ 713,754
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 2,357,482	
Accumulated depreciation	<u>(444,421)</u>	1,913,061

Accrued interest in governmental activities is not reported in the governmental funds.	(2,900)
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(150,000)	
Landfill remediation cost	(433,800)	
Compensated absences	<u>(41,800)</u>	(625,600)

Internal service funds are used by management to charge the costs of certain activities to
individual funds. The assets and liabilities of the internal service funds are reported with
governmental activities in the Statement of Net Assets.

	<u>274,361</u>
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Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>2,272,676</u></u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	Major Streets Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 379,948	\$ -	\$ 71,711	\$ 451,659
Licenses and permits	7,513	-	-	7,513
Intergovernmental revenues				
Federal	-	9,996	-	9,996
State	400,495	99,167	30,933	530,595
Charges for services	119,506	-	20,470	139,976
Fines and forfeitures	2,719	-	-	2,719
Investment earnings	13,624	3,957	8,241	25,822
Other	17,341	7,467	16,113	40,921
Total revenues	941,146	120,587	147,468	1,209,201
EXPENDITURES				
Current				
General government	285,502	-	300	285,802
Public safety	184,153	-	-	184,153
Public works	122,936	64,457	116,577	303,970
Community and economic development	-	-	45,620	45,620
Culture and recreation	132,241	-	-	132,241
Debt service				
Principal	-	-	20,213	20,213
Capital outlay	614,905	7,467	27,387	649,759
Total expenditures	1,339,737	71,924	210,097	1,621,758
Excess (deficiency) of revenues over (under) expenditures	(398,591)	48,663	(62,629)	(412,557)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	5,610	-	-	5,610
Proceeds from long-term debt	150,000	-	-	150,000
Transfers in	3,373	-	20,000	23,373
Transfers out	-	(20,000)	(3,373)	(23,373)
Total other financing sources (uses)	158,983	(20,000)	16,627	155,610
Net change in fund balances	(239,608)	28,663	(46,002)	(256,947)
Fund balances at July 1, 2007	616,414	121,096	233,191	970,701
Fund balances at June 30, 2008	\$ 376,806	\$ 149,759	\$ 187,189	\$ 713,754

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds \$ (256,947)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (50,525)	
Capital outlay	<u>649,759</u>	599,234

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(3,871)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(150,000)
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Changes in estimated costs of landfill remediation are not shown in the governmental funds, but the change increases long-term liabilities in the Statement of Net Assets.	(41,713)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	20,213
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(2,900)
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(4,600)
--	---------

The internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>(44,846)</u>
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Change in net assets of governmental activities	<u><u>\$ 114,570</u></u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2008

ASSETS

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 1,210	\$ 83,355	\$ 84,565	\$ 89,858
Accounts receivable	33,938	16,664	50,602	-
Due from other funds	-	13,476	13,476	-
Inventories	-	11,306	11,306	-
Prepaid items	1,099	1,539	2,638	5,495
Total current assets	36,247	126,340	162,587	95,353
NONCURRENT ASSETS				
Restricted assets	221,022	93,271	314,293	-
Capital assets				
Land	-	6,457	6,457	-
Utility systems	7,318,681	1,486,780	8,805,461	-
Buildings and improvements	-	-	-	17,748
Equipment and furniture	17,023	12,865	29,888	505,618
Less accumulated depreciation	(739,331)	(611,435)	(1,350,766)	(305,612)
Net capital assets	6,596,373	894,667	7,491,040	217,754
Total noncurrent assets	6,817,395	987,938	7,805,333	217,754
Total assets	6,853,642	1,114,278	7,967,920	313,107
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	562	233	795	-
Accrued liabilities	26,576	2,179	28,755	1,129
Customer deposits	-	6,965	6,965	-
Due to other governmental units	25,763	13,789	39,552	-
Due to other funds	13,476	-	13,476	-
Bonds and other obligations, due within one year	39,700	34,000	73,700	10,700
Total current liabilities	106,077	57,166	163,243	11,829
NONCURRENT LIABILITIES				
Advances from other funds	74,467	-	74,467	-
Bonds and other obligations, less amounts due within one year	2,317,637	288,875	2,606,512	22,466
Total noncurrent liabilities	2,392,104	288,875	2,680,979	22,466
Total liabilities	2,498,181	346,041	2,844,222	34,295
NET ASSETS				
Invested in capital assets, net of related debt	4,239,036	571,792	4,810,828	184,588
Restricted for:				
Replacement	221,022	-	221,022	-
Debt service	-	91,371	91,371	-
Unrestricted	(104,597)	105,074	477	94,224
Total net assets	\$ 4,355,461	\$ 768,237	5,123,698	\$ 278,812
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			4,451	
Net assets of business-type activities			\$ 5,128,149	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2008

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 291,885	\$ 168,736	\$ 460,621	\$ 109,487
OPERATING EXPENSES				
Administration	31,002	19,083	50,085	-
Operations	90,111	93,944	184,055	63,681
Depreciation	146,465	29,275	175,740	43,922
Total operating expenses	267,578	142,302	409,880	107,603
Operating income	24,307	26,434	50,741	1,884
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	10,508	6,197	16,705	2,557
Connection fees	3,589	4,312	7,901	-
Gain on sale of capital assets	-	-	-	(58,044)
Interest expense	(112,117)	(17,262)	(129,379)	(1,910)
Total nonoperating revenue (expenses)	(98,020)	(6,753)	(104,773)	(57,397)
Income (loss) before contributions	(73,713)	19,681	(54,032)	(55,513)
Capital contributions	-	-	-	11,000
Change in net assets	(73,713)	19,681	(54,032)	(44,513)
Net assets at July 1, 2007	4,429,174	748,556		323,325
Net assets at June 30, 2008	\$ 4,355,461	\$ 768,237		\$ 278,812
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			333	
Change in net assets of business-type activities			\$ (53,699)	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2008

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 286,353	\$ 168,543	\$ 454,896	\$ -
Receipts from interfund services provided	1,089	1,177	2,266	109,487
Payments to suppliers	(84,102)	(88,927)	(173,029)	(51,572)
Payments to employees	(21,256)	(32,734)	(53,990)	(17,621)
Payment for interfund services used	(8,479)	(11,408)	(19,887)	-
Net cash provided by operating activities	173,605	36,651	210,256	40,294
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from other funds (net)	3,546	-	3,546	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	-	-	11,000
Connection fees	13,284	4,312	17,596	-
Purchases of capital assets	(3,513)	(42,114)	(45,627)	(51,714)
Principal paid on capital debt	(39,738)	(34,000)	(73,738)	(10,322)
Interest paid on capital debt	(113,317)	(17,262)	(130,579)	(2,110)
Proceeds from sale of capital assets	-	-	-	3,104
Net cash used for capital and related financing activities	(143,284)	(89,064)	(232,348)	(50,042)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	10,508	6,197	16,705	2,557
Net increase (decrease) in cash and investments	44,375	(46,216)	(1,841)	(7,191)
Cash and investments at July 1, 2007	177,857	222,842	400,699	97,049
Cash and investments at June 30, 2008	<u>\$ 222,232</u>	<u>\$ 176,626</u>	<u>\$ 398,858</u>	<u>\$ 89,858</u>
Reconciliation of cash and investments to statement of net assets				
Cash and investments	\$ 1,210	\$ 83,355	\$ 84,565	\$ 89,858
Restricted assets	221,022	93,271	314,293	-
	<u>\$ 222,232</u>	<u>\$ 176,626</u>	<u>\$ 398,858</u>	<u>\$ 89,858</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 24,307	\$ 26,434	\$ 50,741	\$ 1,884
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	146,465	29,275	175,740	43,922
Change in assets and liabilities				
Accounts receivable	(4,443)	584	(3,859)	-
Internal balances	13,476	(13,476)	-	-
Inventories	-	2	2	-
Prepaid items	(1,099)	(1,539)	(2,638)	(5,495)
Accounts payables	553	167	720	(88)
Accrued liabilities	114	25	139	71
Customer deposits	-	400	400	-
Due to other governmental units	(5,768)	(5,221)	(10,989)	-
Net cash provided by operating activities	<u>\$ 173,605</u>	<u>\$ 36,651</u>	<u>\$ 210,256</u>	<u>\$ 40,294</u>

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2008

	<u>Trust Fund</u> Riverside Park	<u>Agency Fund</u> Escrow Tax Trust
ASSETS		
Cash and investments	\$ 11,620	\$ -
LIABILITIES	<u>-</u>	<u>\$ -</u>
NET ASSETS		
Held in trust for Riverside Park	\$ <u>11,620</u>	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the year ended June 30, 2008

	Riverside Park Memorial Trust Fund
ADDITIONS	
Investment gain	\$ <u>346</u>
Change in net assets	346
Net assets at July 1, 2007	<u>11,274</u>
Net assets at June 30, 2008	\$ <u><u>11,620</u></u>

The accompanying notes are an integral part of this statement.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scottville (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected seven member council with an appointed mayor. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Unit

Downtown Development Authority (DDA). The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a special revenue fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for money distributed by the State of Michigan for construction and maintenance of major streets within the City.

The City reports the following major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the City of Ludington's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The Private Purpose Trust Fund is used to account for resources held in trust for the Riverside Park.

The Agency Fund is custodial in nature and does not measure results of operations or have a measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 state taxable value for real/personal property of the City totaled approximately \$24,511,000 of which approximately \$1,055,000 was captured by the DDA. The ad valorem taxes levied consisted of 16.5 mills for operation and 1.5 mills for garbage collection. An additional 2.0 mills are levied on the approximately \$3,497,000 in taxable value in the DDA district. These amounts are recognized in the respective General Fund, Garbage and Refuse Collection Fund, and DDA Operations Fund with additional captured amounts also shown in the DDA Operations Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since July 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	15-40
Public domain infrastructure	20-30
System infrastructure and improvements	10-66
Vehicles and equipment	5-20

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service.

Accumulated vacation leave must be taken in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment up to 880 hours. Unused accumulated sick leave is paid to employees with 10 years or more of service who resign or retire, limited to 30 days, not to exceed \$4,000 per employee. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in May, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Fund Deficit

As of June 30, 2008, the Local Streets Fund had an unreserved fund deficit of \$14,964 and the Sewer Fund had an unrestricted net assets deficit of \$104,597. Both deficits will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the City had only cash and cash equivalents.

Interest rate risk. The City's investment policy limits investment maturities to five years or less and requires the overall weighted average duration of its entire portfolio be less than three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City's investment policy limits various types of investments to certain percentages of the City's total investment portfolio as a means of managing its risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, \$931,794 of the City's bank balance of \$1,035,502 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy sets certain requirements for financial institutions to be eligible to do business with the City as a means to limit its risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2008, restricted cash and investments in the City are restricted as follows:

Water Fund	
Repairs and maintenance	\$ 31,002
Bond and interest redemption fund	8,351
Bond reserve fund	53,918
	<u>93,271</u>
Sewer Fund	
Replacement reserve fund	221,022
	<u>\$ 314,293</u>

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 299,515	\$ -	\$ 3,871	\$ 295,644
Construction in progress	182,485	575,376	757,861	-
	482,000	575,376	761,732	295,644
Capital assets, being depreciated:				
Land improvements	71,046	546,328	-	617,374
Buildings and improvements	668,132	240,000	-	908,132
Vehicles and equipment	734,698	90,163	194,577	630,284
Infrastructure	421,947	7,467	-	429,414
Total capital assets, being depreciated	1,895,823	883,958	194,577	2,585,204

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental activities:—Continued				
Less accumulated depreciation:				
Land improvements	\$ 7,104	\$ 3,553	\$ -	\$ 10,657
Buildings and improvements	351,744	19,236	-	370,980
Vehicles and equipment	430,167	50,187	133,429	346,925
Infrastructure	-	21,471	-	21,471
Total accumulated depreciation	<u>789,015</u>	<u>94,447</u>	<u>133,429</u>	<u>750,033</u>
Total capital assets, being depreciated, net	<u>1,106,808</u>	<u>789,511</u>	<u>61,148</u>	<u>1,835,171</u>
Capital assets, net	<u><u>\$ 1,588,808</u></u>	<u><u>\$ 1,364,887</u></u>	<u><u>\$ 822,880</u></u>	<u><u>\$ 2,130,815</u></u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,457	\$ -	\$ -	\$ 6,457
Capital assets, being depreciated:				
Water system	1,444,666	42,114	-	1,486,780
Sewer system	7,318,681	-	-	7,318,681
Equipment and furniture	<u>51,166</u>	<u>3,513</u>	<u>24,791</u>	<u>29,888</u>
Total capital assets, being depreciated	8,814,513	45,627	24,791	8,835,349
Less accumulated depreciation:				
Water system	576,857	24,558	-	601,415
Sewer system	583,011	145,843	-	728,854
Equipment and furniture	<u>39,949</u>	<u>5,339</u>	<u>24,791</u>	<u>20,497</u>
Total accumulated depreciation	<u>1,199,817</u>	<u>175,740</u>	<u>24,791</u>	<u>1,350,766</u>
Total capital assets, being depreciated, net	<u>7,614,696</u>	<u>(130,113)</u>	<u>-</u>	<u>7,484,583</u>
Capital assets, net	<u><u>\$ 7,621,153</u></u>	<u><u>\$ (130,113)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,491,040</u></u>

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 3,973
Public safety	960
Public works	28,243
Culture and recreation	17,349
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets.	<u>43,922</u>
	<u><u>\$ 94,447</u></u>

Business-type activities:

Sewer	\$ 146,465
Water	<u>29,275</u>
	<u><u>\$ 175,740</u></u>

NOTE E—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Sewer Fund	\$ 74,467	Operational loan

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Sewer Fund	Water Fund	\$ 13,476	Operational purposes

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS—Continued

The composition of interfund transfers as of June 30, 2008 is as follows:

Interfund transfers:

	Transfers in:			Purpose
	General Fund	Other governmental funds	Total	
Transfers out:				
Major Streets Fund	\$ -	\$ 20,000	\$ 20,000	Operations subsidy
Other governmental funds	3,373	-	3,373	Operations subsidy
Total	<u>\$ 3,373</u>	<u>\$ 20,000</u>	<u>\$ 23,373</u>	

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, which represented unearned revenue reported in the governmental funds, were for camping fees in the amount of \$10,800.

NOTE G—LONG-TERM DEBT

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Installment purchase agreements	\$ 43,488	\$ 150,000	\$ 10,322	\$ 183,166	\$ 38,100
Landfill remediation costs	412,300	41,713	20,213	433,800	24,100
Compensated absences	<u>37,200</u>	<u>17,364</u>	<u>12,764</u>	<u>41,800</u>	<u>13,000</u>
Governmental activity long-term liabilities	<u>\$ 492,988</u>	<u>\$ 209,077</u>	<u>\$ 43,299</u>	<u>\$ 658,766</u>	<u>\$ 75,200</u>
Business-type activities:					
Revenue bonds	<u>\$ 2,753,950</u>	<u>\$ -</u>	<u>\$ 73,738</u>	<u>\$ 2,680,212</u>	<u>\$ 73,700</u>

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—LONG-TERM DEBT—Continued

Governmental activities:

Installment purchase agreements:

\$53,458 Installment Purchase Contract of 2005 payable
in annual installments of \$11,839 through October
2010; including interest at 3.45% \$ 33,166

\$150,000 Installment Purchase Contract of 2008 payable
in annual installments of \$34,224 through January
2013; including interest at 4.55% 150,000

Landfill remediation costs

Landfill remediation costs estimated annual cost of
approximately \$24,100 through June 2026 (note H) 433,800

Compensated absences 41,800

\$ 658,766

Business-type activities:

Revenue bonds:

\$720,000 Water supply revenue bonds of 1975 due
in annual installments of \$30,000 through
January 2014; interest at 5% \$ 180,000

\$375,000 Obligation to Mason County payable due
in annual installments of \$10,000 to \$25,000
through March 2030; interest at rates varying
from 4.5% to 5.6% 345,000

\$2,271,215 Obligation to Mason County due in annual
installments of \$33,800 to \$118,800 through
April 2040; interest at 4.5% 2,155,212

\$ 2,680,212

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—LONG-TERM DEBT—Continued

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The general obligation bonds are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2008.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2008 follows:

Year ending June 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2009	\$ 62,200	\$ 7,985	\$ 73,700	\$ 124,065
2010	63,800	6,381	73,700	120,586
2011	65,500	4,691	74,400	117,098
2012	55,400	2,922	76,400	113,569
2013	56,800	1,493	77,800	109,940
2014-2018	120,500	-	306,000	501,314
2019-2023	120,500	-	349,300	428,868
2024-2028	72,266	-	440,400	339,743
2029-2033	-	-	467,600	228,885
2034-2038	-	-	520,900	121,853
2039-2041	-	-	220,012	14,454
	<u>\$ 616,966</u>	<u>\$ 23,472</u>	<u>\$ 2,680,212</u>	<u>\$ 2,220,375</u>

NOTE H—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Landfill Remediation

During 1996, The City completed the landfill remediation project. As part of the landfill remediation, the City must continue to monitor the area. The monitoring will be done through the testing of well samples twice a year for at least thirty years. The estimated liability is reported in Note G. The liability is estimated based on the average actual costs over three years, then extrapolated to the number of years remaining. The change in estimate this year resulted in an increase to the liability for governmental activities at July 1, 2007 of \$41,713.

NOTE I—EMPLOYEE PENSION PLAN

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The City contributes 10 percent of participating employees' annual compensation each plan year. Total City contributions for the year ended June 30, 2008 were approximately \$37,800.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

REQUIRED SUPPLEMENTARY INFORMATION

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 370,100	\$ 370,100	\$ 379,948	\$ 9,848
Licenses and permits	5,100	5,100	7,513	2,413
Intergovernmental revenues - State	361,694	526,800	400,495	(126,305)
Charges for services	111,325	122,625	119,506	(3,119)
Fines and forfeitures	3,000	3,000	2,719	(281)
Investment earnings	19,000	19,000	13,624	(5,376)
Other	15,600	19,130	17,341	(1,789)
Total revenues	885,819	1,065,755	941,146	(124,609)
EXPENDITURES				
Current				
General government				
City commission	37,798	57,696	59,774	(2,078)
City manager	73,918	75,468	74,772	696
Elections	5,305	2,630	1,603	1,027
Assessor and board of review	9,285	9,785	8,965	820
Clerk	18,330	19,915	19,812	103
Treasurer	39,126	43,933	44,649	(716)
City hall and grounds	32,095	40,670	44,973	(4,303)
Parking lot and mall	6,032	16,363	16,815	(452)
Brookside Cemetery	21,630	16,950	14,139	2,811
Public safety				
Police department	163,563	167,428	164,397	3,031
Fire department	20,400	14,396	14,395	1
Zoning inspections	4,961	5,361	5,361	-
Public works				
Department of public works	71,295	89,063	90,523	(1,460)
Alleys and sidewalks	6,055	10,855	9,779	1,076
Street lighting	20,200	22,700	22,634	66
Culture and recreation				
Recreation department	41,163	66,240	65,613	627
Riverside Park and grounds	56,859	64,989	66,628	(1,639)
Capital outlay	289,342	610,462	614,905	(4,443)
Total expenditures	917,357	1,334,904	1,339,737	(4,833)
Excess of revenues over (under) expenditures	(31,538)	(269,149)	(398,591)	(129,442)
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	5,500	5,610	110
Proceeds from long-term debt	-	150,000	150,000	-
Transfers in	4,000	4,000	3,373	(627)
Total other financing sources	4,000	159,500	158,983	(517)
Net change in fund balance	\$ <u>(27,538)</u>	\$ <u>(109,649)</u>	(239,608)	\$ <u>(129,959)</u>
Fund balance at July 1, 2007			616,414	
Fund balance at June 30, 2008			\$ <u>376,806</u>	

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 9,996	\$ 9,996
State	88,500	95,000	99,167	4,167
Investment earnings	6,000	6,000	3,957	(2,043)
Other	-	7,466	7,467	1
Total revenues	94,500	108,466	120,587	12,121
EXPENDITURES				
Current				
Public works				
Maintenance	17,034	23,334	20,879	2,455
Traffic services	845	845	136	709
Trunkline maintenance	13,922	23,222	20,820	2,402
Winter maintenance	13,108	22,121	21,922	199
Administration	780	780	700	80
Capital outlay	-	7,467	7,467	-
Total expenditures	45,689	77,769	71,924	5,845
Excess of revenues over (under) expenditures	48,811	30,697	48,663	17,966
OTHER FINANCING USES				
Transfers out	(20,000)	(20,000)	(20,000)	-
Net change in fund balance	\$ 28,811	\$ 10,697	28,663	\$ 17,966
Fund balance at July 1, 2007			121,096	
Fund balance at June 30, 2008			\$ 149,759	

OTHER SUPPLEMENTAL INFORMATION

City of Scottville
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2008

		Special Revenue				Permanent
	Total other governmental funds	Local Streets	Garbage and Refuse Collection	DDA Operations	Capital Project	Cemetery Perpetual
ASSETS						
Cash and investments	\$ 192,927	\$ 4,355	\$ 29,322	\$ 55,561	\$ 12,210	\$ 91,479
Due from other governmental units	4,022	4,022	-	-	-	-
Prepaid items	879	879	-	-	-	-
Total assets	<u>\$ 197,828</u>	<u>\$ 9,256</u>	<u>\$ 29,322</u>	<u>\$ 55,561</u>	<u>\$ 12,210</u>	<u>\$ 91,479</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 4,557	\$ 136	\$ 3,803	\$ 618	\$ -	\$ -
Accrued liabilities	739	166	-	573	-	-
Due to other governmental units	5,343	-	5,343	-	-	-
Total liabilities	10,639	302	9,146	1,191	-	-
Fund balances						
Reserved for:						
Prepaid items	879	879	-	-	-	-
Capital projects	12,210	-	-	-	12,210	-
Rights of way maintenance	23,039	23,039	-	-	-	-
Perpetual care	91,479	-	-	-	-	91,479
Unreserved	59,582	(14,964)	20,176	54,370	-	-
Total fund balances	<u>187,189</u>	<u>8,954</u>	<u>20,176</u>	<u>54,370</u>	<u>12,210</u>	<u>91,479</u>
Total liabilities and fund balances	<u>\$ 197,828</u>	<u>\$ 9,256</u>	<u>\$ 29,322</u>	<u>\$ 55,561</u>	<u>\$ 12,210</u>	<u>\$ 91,479</u>

City of Scottville
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2008

	Total other governmental funds	Special Revenue			Capital Project	Permanent Cemetery Perpetual
		Local Streets	Garbage and Refuse Collection	DDA Operations		
REVENUES						
Property taxes	\$ 71,711	\$ -	\$ 32,808	\$ 38,903	\$ -	\$ -
Intergovernmental revenues - State	30,933	30,933	-	-	-	-
Charges for services	20,470	-	20,245	-	-	225
Investment earnings	8,241	272	1,747	2,360	489	3,373
Other	16,113	-	-	16,113	-	-
Total revenues	147,468	31,205	54,800	57,376	489	3,598
EXPENDITURES						
Current						
General government	300	-	-	-	-	300
Public works	116,577	68,427	48,150	-	-	-
Community and economic development	45,620	-	-	45,620	-	-
Debt service						
Principal	20,213	-	20,213	-	-	-
Capital outlay	27,387	-	-	4,090	23,297	-
Total expenditures	210,097	68,427	68,363	49,710	23,297	300
Excess of revenues over (under) expenditures	(62,629)	(37,222)	(13,563)	7,666	(22,808)	3,298
OTHER FINANCING SOURCES (USES)						
Transfers in	20,000	20,000	-	-	-	-
Transfers out	(3,373)	-	-	-	-	(3,373)
Total other financing sources (uses)	16,627	20,000	-	-	-	(3,373)
Net change in fund balances	(46,002)	(17,222)	(13,563)	7,666	(22,808)	(75)
Fund balances at July 1, 2007	233,191	26,176	33,739	46,704	35,018	91,554
Fund balances at June 30, 2008	\$ 187,189	\$ 8,954	\$ 20,176	\$ 54,370	\$ 12,210	\$ 91,479

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 6, 2008

City Commission
City of Scottville
Scottville, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Scottville as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Scottville's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Scottville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Scottville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of management, the City Commission, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESSES

Recommendation 1: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

During our audit, we noted various account balances that were not reconciled to supporting documentation on a timely basis. This resulted in a large number of adjustments at year end. Since some of the adjustments were individually significant to the affected funds and their accounts, the adjustments significantly affected the interim financial statements.

The timely review and analysis of all general ledger account balances throughout the year and the reconciliation of significant account balances to supporting schedules would improve the accuracy of interim financial statements.

SIGNIFICANT DEFICIENCIES

Recommendation 2: Computer system passwords should be restricted and changed on a regular basis.

During our inquiry of management, we noted that office staff use the same passwords or are aware of each other's passwords for computer and software logins.

Requiring separate passwords would reduce the possibility of passwords being compromised and could reduce the possibility of inappropriate personnel having access to restricted files.

Recommendation 3: Preparation of and approval of the monthly bank reconciliation should be documented.

Currently, the City prepares a monthly bank reconciliation to reconcile the general ledger with the bank statements. The reconciliation is not signed by the preparer or the reviewer.

Documentation by preparer and reviewer would strengthen the reconciliation process and reduce the potential for a misstatement or fraud.

Recommendation 4: All invoices for payment should be approved by the City Commission.

During our audit, we noted that although most invoices were approved by the City Commission for payment, not all were approved.

Approval of all invoices for payment would ensure compliance with State law and also reduce the potential for a misstatement or fraud.